



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	HB0569	<b>Title:</b>	Exempt portion of homestead market value from taxes
<b>Primary Sponsor:</b>	Fiscus, Clayton	<b>Status:</b>	As Introduced

- ☒ Significant Local Gov Impact
 ☒ Needs to be included in HB 2
 ☐ Technical Concerns  
☐ Included in the Executive Budget
 ☐ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$6,142,032	\$5,674,907	\$5,662,143
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	(\$33,014,000)	(\$33,121,000)	(\$33,221,000)
State Special Revenue	\$0	(\$2,072,000)	(\$2,079,000)	(\$2,085,000)
<b>Net Impact-General Fund Balance:</b>	<u>\$0</u>	<u>(\$39,156,032)</u>	<u>(\$38,795,907)</u>	<u>(\$38,883,143)</u>

**Description of fiscal impact:** HB 569 provides an exemption on the first \$100,000 of the market value of class 4 residential property. The owner must make an initial certification that the property is their principal dwelling, and on a subsequent change in the applicant's or property's qualifying status. This bill will require the creation of the eligibility affidavit and applies to tax years starting in TY 2016. The bill reduces State property tax revenue by \$35 million per year, creates Guaranteed Tax Base Aid (GTB) expense of \$5.5 million per year and would create initial expenses for the Department of Revenue of \$635,000, and ongoing annual expense of \$83,000.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

- In Tax Year (TY) 2014, there were 398,794 properties that were classified as class four residential. These properties had a total market value of \$89.778 billion.

2. Residential properties decreased in value by 2.85% as a result of reappraisal, implying a total market value of \$87.218 billion.
3. Property tax collections are collected in the fiscal year immediately following a given tax year. This bill is effective for property tax year 2016 and would reduce tax collections starting in FY 2017 property tax receipts.
4. Under current law, these properties would have a taxable value of \$1,129.498 million in TY 2016, \$1,184.676 million in TY 2017, and \$1,242.662 million in TY 2018.
5. The provisions of HB 569 would decrease the taxable value of all class 4 residential properties by \$505.636 million in TY 2016, \$507.281 million in TY 2017, and \$508.812 million in TY 2018.
6. The US Census Bureau estimates that 68.3% of Montana residences are owner occupied. It is assumed that this is the proportion of properties that are primary residences eligible for the deduction.
7. The application of state mills to these reductions in taxable value, result in the decrease presented in the following table:

**Estimated Decrease in State Property Tax Revenue due to HB 569 (\$ million)**

	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
<b>General Fund (95 &amp; 1.5 mill)</b>	\$0.000	-\$33.014	-\$33.121	-\$33.221
<b>University State Special Revenue (6 mill)</b>	\$0.000	-\$2.072	-\$2.079	-\$2.085

8. The property assessment division estimates that all eligible applicants will apply for the exemption. This is approximately 272,400 households.
9. In order to calculate the claims processing, workload is assumed that each application will take five minutes to process. The application processing effort required in the first year is estimated to require 10.90 FTE (272,400 X 5/60/2080)
10. It is estimated that 50,000 properties are transferred statewide each year and assuming that 68.3% are principal residences, HB 569 is estimated to require 1.50 ongoing FTE (50,000 X 0.683 X 5 /60/2080).
11. Property tax system changes are expected to require 40 hours of development at \$165 per hour, or \$6,600 in the first year.
12. New form development is expected to cost \$2,500 in the first year
13. It is assumed these costs will be funded by the general fund.

**Office of Public Instruction**

14. Local school district mills could rise to offset the reduction in taxable values due to HB 569. The amount each taxpayer pays would change based on their new relative share of taxable value in the district. Total local school mills could adjust so that taxes received by school districts would essentially match present law.
15. The changes HB 569 proposes for property tax does create a statewide guaranteed tax base aid (GTB) cost as outlined in the following table.

**GTB costs per HB 569**

<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>
\$5,466,000	\$5,552,000	\$5,538,000

16. Changes to property tax values may have an impact on the Natural Resource Development (NRD) K-12 Funding Payment. However, the changes in this bill are not expected to cause a significant fiscal effect to the NRD payments.
17. Countywide retirement GTB could result in a general fund cost of approximately \$40,500 per year.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>FY 2018</u></b>	<b><u>FY 2019</u></b>
<b><u>Department of Revenue</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
FTE	0.00	11.00	1.50	1.50
<b><u>Expenditures:</u></b>				
<i>Department Of Revenue</i>				
Personal Services	\$0	\$520,469	\$72,038	\$73,118
Operating Expense	\$0	\$115,063	\$10,369	\$10,525
<i>Office of Public Instruction</i>				
Local Assistance (GTB)	\$0	\$5,466,000	\$5,552,000	\$5,538,000
Local Assistance (Retirement)	\$0	\$40,500	\$40,500	\$40,500
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$6,142,032</b>	<b>\$5,674,907</b>	<b>\$5,662,143</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$6,142,032	\$5,674,907	\$5,662,143
<b>TOTAL Funding of Exp.</b>	<b>\$0</b>	<b>\$6,142,032</b>	<b>\$5,674,907</b>	<b>\$5,662,143</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	(\$33,014,000)	(\$33,121,000)	(\$33,221,000)
State Special Revenue (02)	\$0	(\$2,072,000)	(\$2,079,000)	(\$2,085,000)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$35,086,000)</b>	<b>(\$35,200,000)</b>	<b>(\$35,306,000)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$0	(\$39,156,032)	(\$38,795,907)	(\$38,883,143)
State Special Revenue (02)	\$0	(\$2,072,000)	(\$2,079,000)	(\$2,085,000)

**Effect on County or Other Local Revenues or Expenditures:**

1. The table below displays the current local county wide weighted average mills applied to the decrease in county taxable value. This approximates the taxes that could be shifted to the other class of property and the remaining class 4 residential property. The total local tax shift statewide would be approximately \$185.672 million.

**Estimated Local Tax Revenue Shifts by County under HB 569**  
(million \$)

<b>County</b>	<b>Tax Rev.</b>	<b>County</b>	<b>Tax Rev.</b>	<b>County</b>	<b>Tax Rev.</b>
Beaverhead	(\$1.785)	Golden Valley	(\$0.111)	Powder River	(\$0.205)
Big Horn	(\$0.723)	Granite	(\$0.913)	Powell	(\$1.093)
Blaine	(\$0.573)	Hill	(\$2.509)	Prairie	(\$0.161)
Broadwater	(\$1.097)	Jefferson	(\$2.098)	Ravalli	(\$7.853)
Butte-Silver Bow	(\$6.824)	Judith Basin	(\$0.321)	Richland	(\$0.880)
Carbon	(\$2.635)	Lake	(\$5.347)	Roosevelt	(\$0.654)
Carter	(\$0.091)	Lewis and Clark	(\$13.771)	Rosebud	(\$0.389)
Cascade	(\$13.961)	Liberty	(\$0.271)	Sanders	(\$1.887)
Chouteau	(\$0.917)	Lincoln	(\$3.807)	Sheridan	(\$0.624)
Custer	(\$2.335)	Madison	(\$1.601)	Stillwater	(\$1.497)
Daniels	(\$0.364)	McCone	(\$0.318)	Sweet Grass	(\$0.648)
Dawson	(\$1.483)	Meagher	(\$0.433)	Teton	(\$1.090)
Deer Lodge	(\$2.183)	Mineral	(\$0.994)	Toole	(\$0.684)
Fallon	(\$0.254)	Missoula	(\$23.313)	Treasure	(\$0.102)
Fergus	(\$2.297)	Musselshell	(\$0.748)	Valley	(\$1.238)
Flathead	(\$22.473)	Park	(\$3.608)	Wheatland	(\$0.209)
Gallatin	(\$18.587)	Petroleum	(\$0.079)	Wibaux	(\$0.072)
Garfield	(\$0.223)	Phillips	(\$0.541)	Yellowstone	(\$24.895)
Glacier	(\$0.991)	Pondera	(\$0.915)		

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*Sponsor's Initials*


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*Budget Director's Initials*


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